



FISCAL MEMORANDUM

HB 2625 - SB 2647

March 21, 2022

SUMMARY OF BILL AS AMENDED (016166): Requires the Division of TennCare to study the impact of a policy which requires automatic enrollment of full benefit dual enrollees into a Medicare dual special needs plan (D-SNP). Requires the results of the study to be submitted to the chairs of the Insurance and Commerce and Labor Committees, as well as the legislative librarian, by January 1, 2023. Prohibits the Division from implementing any policy related to the study or reducing current D-SNPs, unless such action is authorized by a joint resolution of the General Assembly. Requires TennCare to contract with at least four Managed Care Organizations (MCOs) to provide services to enrollees.

FISCAL IMPACT OF BILL AS AMENDED:

**Increase State Expenditures - \$2,850,000/FY22-23
\$15,320,300/FY24-25
\$30,585,700/FY25-26 and Subsequent Years**

**Increase Federal Expenditures - \$13,650,000/FY22-23
\$29,907,500/FY24-25
\$59,760,000/FY25-26 and Subsequent Years**

Other Fiscal Impact – Increasing the number of MCOs may result in a decrease in variable administrative costs for the current MCOs. The extent and timing of such decrease is unknown.

Assumptions for the bill as amended:

- The proposed legislation will require TennCare to move from three statewide MCOs to at least four MCOs. TennCare's current data systems are designed to facilitate data transfers and payment for three MCOs and the additional one would require system changes and development. The changes will take approximately 12 months at an estimated one-time cost of \$16,500,000 in FY22-23. This cost would be matched at enhanced federal matching dollars, leading to a one-time increase in state expenditures of \$2,850,000 and a one-time increase in federal expenditures of \$13,650,000.
- MCO's total administrative costs consist of variable administrative costs and fixed administrative costs. It is assumed that with the addition of each MCO, the variable administrative costs associated with enrollments would decline across the other MCOs.

However, there are fixed administrative costs that are unable to be reduced in a similar manner.

- According to information obtained by TennCare's actuaries, each additional MCO would also result in additional administrative costs of \$90,239,176, beginning in the second half of FY24-25 and continuing in subsequent years. This would be paid in \$30,532,425 state expenditures and \$59,706,751 in federal expenditures. However, since the impact will not occur until the CY25 capitation rates, the increase in state expenditures will be \$15,266,213 ($\$30,532,425 / 2$) and in federal expenditures \$29,853,376 ($\$59,706,751 / 2$) in FY24-25.
- It is assumed TennCare will contract with the new MCO in FY22-23 and will have a full 12 months of transition while systems are aligned to function with the additional MCO. The new MCO will then begin serving enrollees in FY23-24, which will then serve as the basis for establishing the administrative portion of the capitation rates for FY24-25.
- Based on information provided by the Division, the current average variable administrative costs are estimated to be \$109,105,534 per MCO. Increasing the number of MCOs will result in a reduction in such costs for the current MCOs. The net impact on total administrative costs across all four MCOs cannot be quantified with reasonable certainty.
- The proposed legislation will require the Department of Commerce and Insurance to create one additional TennCare Examiner position, which will have a start date in FY24-25. This will create a recurring increase in expenditures of \$100,359 (\$80,124 salary + \$20,235 benefits) in FY24-25 and subsequent years, along with a recurring expenditure of \$6,100 for administrative cost allocations, and a one-time expenditure of \$1,700 for computer equipment in FY24-25.
- The total increase in expenditures associated with the new TennCare Examiner position is \$108,159 ($\$100,359 + \$6,100 + \$1,700$) in FY24-25, and \$106,459 ($\$100,359 + \$6,100$) in FY25-26 and subsequent years. These expenditures will be matched with 50 percent federal funding. Therefore, there will be an increase in federal expenditures of \$54,080 ($\$108,159 \times 50\%$) in FY24-25 and \$53,230 ($\$106,459 \times 50\%$) in FY25-26 and subsequent years, and an increase in state expenditures of \$54,080 ($\$108,159 \times 50\%$) in FY24-25 and \$53,230 ($\$106,459 \times 50\%$) in FY25-26 and subsequent years.
- The total increase in state expenditures will be \$2,850,000 in FY22-23, \$15,320,293 ($\$15,266,213 + \$54,080$) in FY24-25, and \$30,585,682 ($\$30,532,452 + \$53,230$) in FY25-26 and subsequent years.
- The total increase in federal expenditures will be \$13,650,000 in FY22-23, \$29,907,456 ($\$29,853,376 + \$54,080$) in FY24-25, and \$59,759,981 ($\$59,706,751 + \$53,230$) in FY25-26 and subsequent years.
- There will be no significant cost associated with submitting the results of the study to committee chairs and the legislative librarian.
- The fiscal impact of any policy changes as a result of the study will be directly associated with any subsequent joint resolutions adopted by the General Assembly.

IMPACT TO COMMERCE OF BILL AS AMENDED:

**Increase Business Revenue – \$16,500,000/FY22-23
\$45,199,600/FY24-25
\$90,239,200/FY25-26 and Subsequent Years**

**Increase Business Expenditures –
Less than \$16,500,000/FY22-23
\$45,199,600/FY24-25
\$90,239,200/FY25-26 and Subsequent Years**

Assumption for the bill as amended:

- The proposed legislation will result in an increase in revenue of \$16,500,000 to data systems software providers in FY22-23 and an increase in expenditures of less than the same amount.
- In order to enact the provisions of the proposed legislation, MCOs will realize an increase of revenue and an equal increase of expenditures of \$45,119,589 in FY24-25 and \$90,239,203 in FY25-26 and subsequent years.
- There will be additional business expenditures throughout the state based on the additional MCOs' networks and payments to providers who are not part of the current MCOs' networks. Such impact cannot be quantified.
- Due to the various unknown variables, it is unknown how many new jobs will be created as a result of the proposed legislation, but at least one state job will be created.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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